

LUDINGTON MASS TRANSPORTATION AUTHORITY

**REPORT ON FINANCIAL STATEMENTS
(with additional information)**

SEPTEMBER 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ludington Mass Transportation Authority	County Ludington
Audit Date 9/30/05	Opinion Date 11/10/05	Date Accountant Report Submitted to State: 12/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

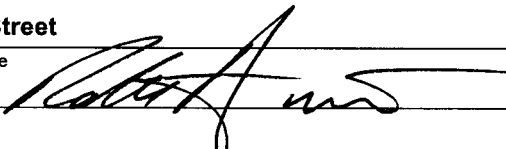
Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants			
Street Address 1107 E. 8th Street		City Traverse City	State MI
Accountant Signature 		ZIP 49686	Date 12/12/05

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HARRIS GROUP

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the accompanying financial statements of the business-type activities of Ludington Mass Transportation Authority, the "Authority", as of and for the year ended September 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, management expensed additional depreciation, during the year, due to a change in the depreciable life of certain assets. Accounting principles generally accepted in the United States of America require a change in the depreciable life of an asset be expensed over the remaining life of the asset. The amount that was expensed in the current year was \$63,261.

In our opinion, except of the effect of expensing additional depreciation due to a change in depreciable life as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ludington Mass Transportation Authority, as of September 30, 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2005, on our consideration of Ludington Mass Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ludington Mass Transportation Authority's basic financial statements. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except of the effect of expensing additional depreciation due to a change in depreciable life as described in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HARRIS Group

November 10, 2005

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2005**

This section of the Authority's annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2005. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2005, by \$3,604,453. Of this amount, \$909,984 represents net assets which are not invested in capital assets.
- The Authority's total net assets decreased by \$332,309. This decrease results mainly from reduction of state funding by 9% from the prior year and an increase in depreciation expense due to placing in service the new operating facility.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expense are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis of the Ludington Mass Transportation Authority

For the year ended September 30, 2005, assets exceeded liabilities by \$3,604,453. The Authority is a capital-intensive enterprise, and approximately 75% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2005**

Figure A-1 *Condensed Statement of Net Assets*

	<u>9/30/05</u>	<u>9/30/04</u>
Assets		
Current	\$ 1,013,015	\$ 1,504,857
Non-Current	2,694,469	3,013,313
	<u><u>\$ 3,707,484</u></u>	<u><u>\$ 4,518,170</u></u>
Liabilities		
Current	\$ 103,031	\$ 596,380
Net Assets		
Invested in Capital Assets	2,694,469	3,013,313
Unrestricted	909,984	908,477
	<u><u>3,604,453</u></u>	<u><u>3,921,790</u></u>
Liabilities and Net Assets	<u><u>\$ 3,707,484</u></u>	<u><u>\$ 4,518,170</u></u>

The Authority's net assets decreased by \$332,309 in 2005. The following is a summary of Revenues, Expenses and Changes in Net Assets which show how the \$332,309 decrease in net assets occurred.

Figure A-2 *Changes in Net Assets from Operating Results*

For the year ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 223,620	\$ 214,263
Operating expenses	<u>1,560,736</u>	<u>1,422,778</u>
OPERATING (LOSS)	<u>(1,337,116)</u>	<u>(1,208,515)</u>
Taxes	183,716	177,322
Other Nonoperating revenue	<u>812,839</u>	<u>830,199</u>
Total Nonoperating revenue	<u>996,555</u>	<u>1,007,521</u>
Income (Loss) Before Capital Contributions	(340,561)	(200,994)
Capital Grants	<u>8,252</u>	<u>1,855,547</u>
CHANGE IN NET ASSETS	<u><u>\$ (332,309)</u></u>	<u><u>\$ 1,654,553</u></u>

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2005**

The following table shows 2005 revenue compared to 2004:

Revenues	2005 Amount	2005 Percent Of Total	2004 Amount	2004 Percent Of Total	Increase (Decrease) From 2004
Operating Revenue	\$ 223,620	18.33	\$ 214,263	17.54	\$ 9,357
Interest Income	18,920	1.55	22,018	1.80	(3,098)
Property Tax	183,716	15.06	177,322	14.51	6,394
Federal Assistance	201,526	16.52	174,068	14.25	27,458
State Assistance	548,885	44.98	622,412	50.94	(73,527)
Maintenance Service Revenues	15,550	1.27	11,701	0.96	3,849
Gain on Sale of Assets	27,958	2.29			27,958
Total Revenue	\$ 1,220,175	100.00	\$ 1,221,784	100.00	\$ (1,609)
Capital Contributions					
Federal	\$ 6,602	80.00	\$ 1,484,438	80.00	\$ (1,477,836)
State	1,650	20.00	371,109	20.00	(369,459)
Total	\$ 8,252	100.00	\$ 1,855,547	100.00	\$ (1,847,295)

The federal reimbursement rate increased to 12.4% for eligible expenditures. The State reimbursement rate, however, dropped from 42.24% to 38.43%, a reduction of 9%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department – The department describes the major function areas of the Authority and includes:

Operations – Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance – Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration – All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation – Estimated pro-ration of the cost of capital assets over the useful life of the asset.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2005**

The following table shows the expenses for 2005 compare to 2004 by department:

Department	2005 Amount	2005 Percent Of Total	2004 Amount	2004 Percent Of Total	Increase (Decrease) From 2004
Operations	\$ 750,574	48.09	\$ 802,633	56.41	\$ (52,059)
Maintenance	173,427	11.11	127,480	8.96	45,947
Administration	291,884	18.70	339,624	23.87	(47,740)
Depreciation	344,851	22.10	153,041	10.76	191,810
Total Expenses	\$ 1,560,736	100.00	\$ 1,422,778	100.00	\$ 137,958

- Operations costs decreased due to moving into the new facility and not incurring any lease cost.
- Maintenance costs increased in large maintenance and repair cost of maintaining the fleet.
- Administration costs decreased because of a reallocation of wages from administration to operations for individuals with joint tasks.

Operating Expense by Object – The object is the classification of expenses by type of item. The following table shows expenses for 2005 compared to 2004 by object:

Object	2005 Amount	2005 Percent Of Total	2004 Amount	2004 Percent Of Total	Increase (Decrease) From 2004
Wages and Benefits	\$ 818,868	52.47	\$ 846,444	59.49	\$ (27,576)
Services	142,486	9.13	126,381	8.88	16,105
Supplies and Materials	146,724	9.40	94,575	6.65	52,149
Utilities	39,924	2.56	22,747	1.60	17,177
Casualty and Liability	57,558	3.69	88,767	6.24	(31,209)
Miscellaneous	6,933	0.44	13,813	0.97	(6,880)
Lease and Rentals	3,392	0.22	70,152	4.93	(66,760)
Property taxes			6,858	0.48	(6,858)
Depreciation	344,851	22.09	153,041	10.76	191,810
Total	\$ 1,560,736	100.00	\$ 1,422,778	100.00	\$ 137,958

- Wages and benefits decreased due to slightly less employees.
- Supplies expenses increased due to higher fuel prices.
- Lease and rentals expense was lower due to moving into the new facility.
- Depreciation expense is higher due to depreciating the new facility.

**Ludington Mass Transportation Authority
Management Discussion and Analysis
For the year ended September 30, 2005**

Capital Assets

The Authority's investment in capital assets as of September 30, 2005, amounted to \$2,694,469 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2005 included the following:

- Computer equipment \$13,170
- Kubota lawn tractor \$9,500

Factors Bearing on the Authority's Future

With the current economic condition in the country and especially the State of Michigan, LMTA management anticipates the following:

- Federal Operating will increase from 12.4% to 15.0% of eligible operating expenses in 2006.
- State operating funds will increase from 38.43% to 39.25% of eligible expenses in 2006.
- As with other employers, the LMTA continues to face increased employee benefit costs. In 2005, the LMTA will face a 19% increase in health insurance premiums. It is safe to anticipate another increase in 2006. To address the increase, the LMTA will drop some coverage's by purchasing a cheaper health care plan. Dental and optical insurance may be dropped and a larger deductible plan may be implemented to cut costs. The LMTA does not anticipate cutting other benefits at this time.
- The LMTA has seen a large increase in property and casualty insurance coverage in the past two years. The LMTA participates in the Michigan Transit Pool to save on vehicles insurance costs. Unfortunately, pool members must share the cost of large claims from the other members. In 2002 and 2004, there has been above average large claims that required retrospective billings to all members. These claims happen and cannot be predicted. Due to this, premiums cannot be stabilized to account for catastrophic claims. Since September 11th, excess insurance rates have soared. This has increased the rates MTP members pay since we purchase excess insurance for over \$1,000,000. To combat the increased excess insurance costs, the MTP now self insures for \$2,000,000 and purchases \$2,000,000 in excess insurance. The future risk shared losses increases since the MTP now carries the first \$2,000,000 in coverage. The LMTA is not able to stabilize future premium costs due to the risk factor of all pool members.

Contacting the Public Transit's Financial Management

This financial report is designed to provide the Ludington Mass Transportation Authority's citizens, taxpayers, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ludington Mass Transportation Authority, 5545 W. Carr Street, Ludington, MI 49431.

LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS	<u>2005</u>
CURRENT ASSETS:	
Cash	\$ 801,123
Receivables:	
Accounts	19,438
Due from Other Governments	145,001
Prepaid expenses	36,777
Inventories	<u>10,676</u>
Total Current Assets	1,013,015
PROPERTY AND EQUIPMENT, less accumulated depreciation	<u>2,694,469</u>
TOTAL ASSETS	<u><u>\$ 3,707,484</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 40,504
Accrued liabilities:	
Accrued vacation	1,663
Payroll withholdings	2,115
Salaries and wages	9,575
Due to Other Governments	6,437
Deferred Revenue	<u>42,737</u>
Total Current Liabilities	<u>103,031</u>
NET ASSETS:	
Invested in Capital Assets	2,694,469
Unrestricted	<u>909,984</u>
Total Net Assets	<u>3,604,453</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,707,484</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2005**

	<u>2005</u>
OPERATING REVENUES	\$ 223,620
OPERATING EXPENSES	<u>1,560,736</u>
Operating (Loss)	<u>(1,337,116)</u>
NON-OPERATING REVENUES:	<u>996,555</u>
NET INCOME (LOSS)	<u>(340,561)</u>
CAPITAL CONTRIBUTIONS	
Federal Financial Assistance	6,602
State of Michigan	<u>1,650</u>
Total Capital Contributions	<u>8,252</u>
DECREASE IN NET ASSETS	(332,309)
TOTAL NET ASSETS, beginning of year	<u>3,936,762</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 3,604,453</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005**

	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 221,060
Cash payments to suppliers for goods and services	(1,076,711)
Cash payments to employees for services	<u>(602,125)</u>
Net cash used in operating activities	<u>(1,457,776)</u>
CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:	
Local tax levy received	186,453
Maintenance service receipts	15,550
Operating grants received	<u>691,313</u>
Net cash provided by non-capital financing	<u>893,316</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(16,333)
Proceeds from sale of fixed assets	33,256
Capital grants received	<u>389,235</u>
Net cash provided by capital and related financing activities	<u>406,158</u>
CASH FLOWS FROM INVESTING ACITIVITIES	
Interest on investments	<u>19,774</u>
NET DECREASE IN CASH	<u>(138,528)</u>
CASH, beginning of year	<u>939,651</u>
CASH, end of year	<u><u>\$ 801,123</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
RECONCILIATION OF OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2005**

	<u>2005</u>
Operating income (loss)	<u>\$ (1,337,116)</u>
Adjustments to reconcile operating loss to net cash provided	
By operating activities:	
Depreciation	344,851
Accounts receivable	(2,560)
Inventories	1,084
Prepaid expenses	2,812
Accounts payable	(466,546)
Accrued expenses	<u>(301)</u>
Total adjustments	<u>(119,660)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (1,457,776)</u></u>

The accompanying notes are an integral part of this statement.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ludington Mass Transportation Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Ludington Mass Transportation Authority is organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 196. The Transportation Authority has the capability to provide public transportation to the general public in the area of Ludington and Scottville, Michigan, and has the authority to provide this service throughout Mason County. Ludington Mass Transportation Authority does receive city millage for operations, and both City of Ludington and City of Scottville governing bodies appoint Ludington Mass Transportation Authority Board members. Ludington Mass Transportation Authority's financial statements are not included in either the City of Ludington's or the City of Scottville's audit reports. Only Ludington Mass Transportation Authority's operations are included in this report.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion for the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statement (i.e., the statement of net assets and the statement of revenue, expenses and change in net assets) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts – invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

- (1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration.
- (3) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- (4) In United States government of Federal agency obligation repurchase agreements.
- (5) In bankers' acceptances of United States banks.
- (6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Capital Assets and Depreciation

Capital assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by and Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

Inventory and Prepaid Items

Inventories of motor vehicle lubricants and parts are valued at the lower of cost or market on a first-in, first out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Revenue

The deferred revenue represents taxes received that are not recognized until the following year.

Compensated Absences

The Authority does not allow the carryover of sick and vacation benefits beyond the year ended. For September 30, 2005, however the Board approved the carryover of vacation benefits for one employee totaling \$1,663.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

Prior period adjustment – correction of an error

It was determined that certain capital costs for the new facility were expensed when incurred and not capitalized. The adjustment increased net assets by \$14,792 and capital assets by \$6,991.

GAAP Departure - Change in accounting estimate

During the year it was determined that certain fixed assets were not being depreciated according to the Michigan Department of Transportation depreciable life schedule. Depreciable lives for seventeen assets were changed to lives that agree to the schedule. This change resulted in an increase to expense of \$63,261. Accounting principles generally accepted in the United States of America require a change in the depreciable life of an asset be expensed over the remaining life of the asset.

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2: PROPERTY & EQUIPMENT

Major classes of property and equipment consist of the following:

Business-type activities	Balance 09/30/04	Increases	Decreases	Balance 09/30/05
Capital assets, not being depreciated				
Land	\$ 100,971	\$	\$	\$ 100,971
Capital assets, being depreciated				
Buildings	\$ 2,265,875			\$ 2,265,875
Vehicles	1,271,075		282,663	988,412
Bus and garage equipment	146,174	9,500		155,674
Furniture, fixtures & equipment	117,441	14,815	19,304	112,952
Total capital assets being depreciated	3,800,565	24,315	301,967	3,522,913
Less accumulated depreciation for:				
Buildings		113,559		113,559
Vehicles	758,903	198,652	281,070	676,485
Bus and garage equipment	67,154	13,384		80,538
Furniture, fixtures & equipment	55,175	19,257	15,599	58,833
Total accumulated depreciation	881,232	344,852	296,669	929,415
Total capital assets, being depreciated, net	2,919,333			2,593,498
Business-type activities capital assets, net	\$ 3,020,304			\$ 2,694,469

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

Capital assets were purchased with two sources of funds as follows:

	Purchased with Authority Funds	Purchased with Capital Grants	Total
Land and Buildings	\$ 344,583	\$ 2,022,263	\$ 2,366,846
Vehicles	9,080	979,332	988,412
Bus and garage equipment	10,747	144,927	155,674
Furniture, fixtures & equipment	78,931	34,021	112,952
	443,341	3,180,543	3,623,884
Less accumulated depreciation	53,721	875,694	929,415
Net Property and Equipment	\$ 389,620	\$ 2,304,849	\$ 2,694,469

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: RECEIVABLES

Receivables as of year end for the Authority are as follows:

Account receivable	\$ <u>19,438</u>
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The allowance for doubtful accounts is not considered to be material for disclosure.

NOTE 4: PROPERTY TAXES

The Authority levies a voter-approved tax for the City of Ludington and City of Scottville. The voters granted the authority to levy up to .9254 of one mill through 2005 for the City of Ludington and up to 1.32 through 2008 for the City of Scottville. The taxes are levied and due July 1, and become delinquent after August 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period.

NOTE 5: DEPOSITS AND INVESTMENTS

At year end, the carrying amount of the Authority's deposits was \$801,123 and the bank balance was \$805,238 of which \$200,185 was covered by federal depository insurance and \$605,053 was uninsured and uncollateralized. The authority has no investments as of September 30, 2005. The authority has the following risk disclosures:

Interest Rate Risk – The authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The authority has no investment policy that would further limit its investment choices. As of September 30, 2005, the authority has no investments that meet the above criteria.

Concentration of Credit Risk – The authority places no limit on the amount the district may invest in any one issuer.

**LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: CONTINGENCIES

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2002, 2003 and 2004, either have not commenced or have not been completed.

NOTE 7: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. For the years ended September 30, 2005 and 2004, there was a \$0 and \$17,152 retrospective billing. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

NOTE 8: CONCENTRATION OF CREDIT RISK

For the fiscal year ended September 30, 2005, the Authority was reimbursed by the State of Michigan for 38.43% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

NOTE 9: PENSION

The Authority has established a Simplified Employee Pension Program for all employees who are at least 21 years of age, received at least \$450 in compensation and have completed one year of service. Ludington Mass Transportation Authority contributes 5% of gross wages of each eligible participant each year. Total pension cost for the years ended September 30, 2005 and 2004 were \$27,429 and \$28,663 respectively. The covered payroll for the year ended September 30, 2005 was approximately \$548,580 and total payroll was \$601,824.

In addition, the Authority has a section 457 plan which allows employees to defer a portion of their wages into individual retirement annuities which are owned by each employee.

ADDITIONAL INFORMATION

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>2005</u>
Operating Revenues:	
Demand response	\$ 124,830
Contracted services	<u>98,790</u>
 TOTAL OPERATING REVENUES	 <u><u>\$ 223,620</u></u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total 2005</u>
Labor:				
Operating salaries and wages	\$ 310,440	\$	\$	\$ 310,440
Other salaries and wages	28,520	77,687	116,262	222,469
Dispatchers salaries and wages	68,915			68,915
Fringe benefits				
Other fringe benefits	112,906	36,667	40,042	189,615
Pension	18,300	3,902	5,227	27,429
Services				
Advertising/promotion expense			8,726	8,726
Other services	94,132	595	39,033	133,760
Materials and supplies consumed:				
Fuel and lubricants	73,540	263	1,999	75,802
Tires and tubes	6,899			6,899
Other materials and supplies	6,082	53,496	4,445	64,023
Utilities			39,924	39,924
Casualty and liability cost:				
Liability and property damage insurance	29,634		27,924	57,558
Worker's compensation				
Miscellaneous expenses:				
Travel	691		4,832	5,523
Association dues and subscriptions			1,410	1,410
Leases and rentals	515	817	2,060	3,392
Depreciation	<u>312,211</u>	<u>13,384</u>	<u>19,256</u>	<u>344,851</u>
TOTAL EXPENSES	<u><u>\$ 1,062,785</u></u>	<u><u>\$ 186,811</u></u>	<u><u>\$ 311,140</u></u>	<u><u>\$ 1,560,736</u></u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2005

	<u>2005</u>
PROPERTY TAXES	\$ <u>183,716</u>
STATE SOURCES	
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	
Prior year adjustment - 1999	13,189
Prior year adjustment - 2000	4,868
Prior year adjustment - 2001	(4,860)
Prior year adjustment - 2004	381,449
2005	154,239
Reverse Commute	<u>548,885</u>
FEDERAL SOURCES	
U.S. Department of Transportation	
Operating Grant – Section 5311	
Contract 02-0061-Z13/R1	122,311
Contract 02-0061-Z4	(359)
Contract 02-0061-Z10	(2,136)
Rural Transit Assistance Program	2,472
Reverse Commute	<u>79,238</u>
	<u>201,526</u>
OTHER	
Interest Income	18,920
Gain on sale of fixed assets	27,958
Maintenance service and other	<u>15,550</u>
	<u>62,428</u>
TOTAL NON-OPERATING REVENUE	<u>\$ 996,555</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULES OF CAPITAL GRANTS
YEARS ENDED SEPTEMBER 30, 2005**

	<u>2005</u>
State of Michigan capital grants:	
Contract 02-0061-Z8	\$ 2,362
Contract 02-0061-Z11	<u>(712)</u>
Total State of Michigan capital grants	<u>1,650</u>
Federal capital grants	
U.S. DOT capital grant	
Contract 02-0061-Z8	9,448
Contract 02-0061-Z11	<u>(2,846)</u>
Total Federal capital grants	<u>6,602</u>
TOTAL CAPITAL GRANTS	<u><u>\$ 8,252</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2005**

	<u>RTAP</u>	<u>Reverse Commute</u>	<u>Operations</u>	<u>Total</u>
Labor	\$	\$ 83,751	\$ 518,073	\$ 601,824
Fringe benefits		30,102	186,942	217,044
Services		84,647	57,839	142,486
Materials and supplies		16,827	129,897	146,724
Utilities		6,389	33,535	39,924
Casualty and liability insurance		9,985	47,573	57,558
Miscellaneous expense	2,472	1,085	3,376	6,933
Leases and rentals		692	2,700	3,392
Depreciation			344,851	344,851
	<u>\$ 2,472</u>	<u>\$ 233,478</u>	<u>\$ 1,324,786</u>	<u>\$ 1,560,736</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2005**

	<u>Section 5311</u>	<u>Operating Assistance</u>
Expenses:		
Labor	\$ 518,073	\$ 518,073
Fringe benefits	186,942	186,942
Services	57,839	57,839
Materials and supplies	129,897	129,897
Utilities	33,535	33,535
Casualty and liability insurance	47,573	47,573
Miscellaneous expense	3,376	3,376
Leases and rentals	2,700	2,700
Depreciation	<u>344,851</u>	<u>344,851</u>
TOTAL EXPENSES	<u>1,324,786</u>	<u>1,324,786</u>
Less ineligible expenses:		
Depreciation:		
Grant assets	318,668	318,668
Audit fees	6,200	
Maintenance on County vehicles	13,188	13,188
Loss on fixed assets		
Entertainment expenses	173	173
Bad debt expenses	105	105
Dues	<u>69</u>	<u>69</u>
Total ineligible expenses	<u>338,403</u>	<u>332,203</u>
NET ELIGIBLE EXPENSES	<u>986,383</u>	<u>992,583</u>
Maximum Section 5311 reimbursement 12.40%	<u>\$ 122,311</u>	
Maximum State operating Assistance 38.43% of eligible expenses		<u>\$ 381,449</u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
MILEAGE DATA
YEAR ENDED SEPTEMBER 30, 2005**

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2005. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

	Public Transportation Mileage
DEMAND RESPONSE	
First quarter	
Second quarter	78,684
Third quarter	82,736
Fourth quarter	81,480
	<u>76,780</u>
TOTAL DEMAND RESPONSE	<u><u>319,680</u></u>

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF VEHICLE HOURS AND PASSENGERS**

September 30, 2005

	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	6,557	18,177	5,213	11,684	1,238	36,312
Second Quarter	6,684	19,570	5,377	11,919	961	37,827
Third Quarter	6,366	15,828	5,294	12,428	834	34,384
Fourth Quarter	5,903	13,323	5,558	11,544	932	31,357
	<u>25,510</u>	<u>66,898</u>	<u>21,442</u>	<u>47,575</u>	<u>3,965</u>	<u>139,880</u>

September 30, 2004

	Passengers					Total Passengers
	Vehicle Hours	Regular Passenger	Senior Passenger	Handi- Capped Passenger	Senior Handi- Capped Passenger	
First Quarter	5,920	18,806	4,979	11,573	1,343	36,701
Second Quarter	6,632	22,197	4,913	12,008	1,215	40,333
Third Quarter	5,937	17,513	4,773	11,764	1,273	35,323
Fourth Quarter	5,499	11,697	5,591	10,908	1,282	29,478
	<u>23,988</u>	<u>70,213</u>	<u>20,256</u>	<u>46,253</u>	<u>5,113</u>	<u>141,835</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINANCIAL ASSISTANCE
FEDERAL AND STATE
YEAR ENDED SEPTEMBER 30, 2005

Federal grantor/Pass through grantor Program title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Beginning Receivable/ (Deferral)	Receipts	Disbursements	Adjustments	Ending Receivable/ (Deferral)
<u>U.S. Department of Transportation</u> <u>Passed through MDOT:</u>								
Operating assistance Section 5311	20.509	02-0061/Z1	\$	\$ (908)	\$	\$	\$ 908	\$
Operating assistance Section 5311	20.509	02-0061/Z4		359		(359)		
Operating assistance Section 5311	20.509	02-0061/Z10		12,291	10,155	(2,136)		
Operating assistance Section 5311	20.509	02-0061/Z13/R1	122,311		81,720	122,311		
R-TAP Training	20.509	N/A			2,472	2,472		
Capital Grant Section 5309	20.500	02-0061/Z8	2,472	59,222	68,670	9,448		40,591
Capital Grant Section 5309	20.500	02-0061/Z11		245,565	242,719	(2,846)		
TOTAL FEDERAL ASSISTANCE			\$ 124,783	\$ 316,529	\$ 405,736	\$ 128,890	\$ 908	\$ 40,591

Michigan Department of Transportation

Operating assistance Act 51	2005	\$ 381,449	\$	\$ 377,189	\$ 381,449	\$	\$	4,260
Operating assistance Act 51	2004		3,204		(4,860)			(1,656)
Operating assistance Act 51	2003		(28,806)				31,787	2,981
Operating assistance Act 51	2002		3,743					3,743
Operating assistance Act 51	2001		(3,185)					1,683
Operating assistance Act 51	2000		7,301					20,490
Operating assistance Act 51	1999		(2,777)				2,777	
Reverse Commute								
Transportation to work	02-0061/Z5		88,244	134,247	79,239			33,236
Capital grants	02-0061/Z12	75,000		75,000	75,000			
Capital grants	02-0061/Z8		14,805	17,167	2,362			
Capital grants	02-0061/Z11		61,391	60,679	(712)			
TOTAL STATE OF MICHIGAN ASSISTANCE		\$ 456,449	\$ 143,920	\$ 664,282	\$ 550,535	\$ 34,564	\$	64,737



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Transit Committee
Ludington Mass Transportation Authority

We have audited the financial statements of the business-type activities for Ludington Mass Transportation Authority as of and for the year ended September 30, 2005, which collectively comprise the Ludington Mass Transportation Authority's basic financial statements and have issued our report thereon dated November 10, 2005. That report was qualified because of the effect of expensing additional depreciation due to a change in the depreciable life of certain assets. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ludington Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Ludington Mass Transportation Authority, in a separate letter dated November 10, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ludington Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Harris Group
Certified Public Accountants

**LUDINGTON MASS TRANSPORTATION AUTHORITY
SUPPLEMENTARY SCHEDULE OF INELIGIBLE COSTS
YEAR ENDED SEPTEMBER 30, 2005**

<u>Program</u>	<u>Description of Ineligible Costs</u>	<u>Ineligible Cost</u>
Urban Mass Transportation Administration		
A) Operating Grants 02-0061	1) Depreciation: Deprecation accrued on assets purchased with Contributed capital must be deducted as an ineligible expense.	\$ 318,668
	2) Expenses for the maintenance of County vehicles	13,188
	3) Entertainment expenses	173
	4) Bad debt expenses	105
	3) Ineligible portion of association dues	<u>69</u>
	TOTAL INELIGIBLE EXPENSES FOR STATE OPERATIONS	332,203
	5) Audit fees are ineligible for Section 5311	<u>6,200</u>
	TOTAL INELIGIBLE EXPENSE FOR SECTION 5311	<u><u>\$ 338,403</u></u>



HARRIS GROUP

Certified Public Accountants

November 10, 2005

To the Board of Directors
Ludington Mass Transportation Authority

In planning and performing our audit of the financial statements of Ludington Mass Transportation Authority (Authority) for the year ended September 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Ludington Mass Transportation Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Authorized check signers

During our audit, we noted that it is possible, at present, for the approval of disbursements, reconciliation of the bank statement, and the signing of checks to be performed by the accountant. Currently, the accountant can sign any check for a disbursement less than \$250. We recommend that the accountant be removed from any account in which they have check signing authority. Such controls over cash disbursements minimize the possibility of undetected errors or misappropriation of cash. We believe that controls over cash will improved be significantly by implementing this recommendation.

Cash receipts

The dispatchers have access to cash, vaults and have the ability to count driver's cash. Allowing these functions to be performed by the same individual increases the risk that errors or misappropriation could occur and go undetected. Currently, dispatchers will count the drivers cash in their vault if the secretary is not available. We feel by having the dispatchers counting cash allows them access to the whole receipting system. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce risk of errors or fraud. We recommend not having the dispatchers count the vaults and having the accountant count the vaults in the receptionist absence.

Cash disbursements

During our testing, we noted that not all invoices contained an approval signature by the appropriate individual. It was explained to us that certain invoices were verbally approved, these approvals need to be documented by initials or a signature on the invoice. Also, we noted that invoices did not contain an indication of the general ledger account to be posted. We recommend that the policy of using a stamp to record the general ledger account number be required for cash disbursements and individuals responsible for making such approvals be instructed that initials or a signature is needed before the disbursement can be made. These procedures will help prevent unauthorized payment of invoices or invoices from being paid twice.

Credit cards

During our audit, we noted that the Authority has one credit card issued to the executive director, which is available for use by other unauthorized signers. This practice increases the chance of unauthorized purchases by company employees. We recommend that access to the credit card be limited to authorized signers to reduce the risk of fraud, and a list of authorized signers be prepared and updated periodically.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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